

**GOVERNMENT POLICIES AND THE DEPRECIATION OF THE NAIRA UNDER
GENERAL BABADINGA'S REGIME**

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UNIVERSITY OF BENIN

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**A RESEARCH PROJECT PRESENTED TO THE DEPARTMENT OF HISTORY
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DEDICATION

This project is dedicated to El-shaddai, God Almighty, my Heavenly Father and my Fortress whose strength has been my anchor through every challenge. He has been my refuge in times of uncertainty, my source of wisdom, and my unfailing guide. Without his grace, this journey would not have been possible. To him be all glory, honor and praise.

CERTIFICATION

This is to certify that this research project was carried out by OFE GIFT EMUALOSI in the Department of History and international Studies, University of Benin, under my supervision.

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CHAPTER ONE

BACKGROUND TO THE STUDY

Introduction

The economic history of Nigeria has been significantly shaped by its leadership and the policy choices enacted during key moments of national crisis. Among the most pivotal and controversial periods was the military administration of General Ibrahim Badamasi Babangida, who ruled from 1985 to 1993. His regime introduced a radical shift in Nigeria's economic management paradigm through a series of liberal market reforms, aimed at rescuing the country from the grip of economic stagnation and external indebtedness. However, these policy decisions through ambitious in theory ushered in a prolonged period of monetary instability, prominently marked by the persistent depreciation of the naira and deepening socio-economic challenges.

Before Babangida's regime, Nigeria had already begun to experience a complex economic downturn. The oil boom of the 1970s had created a false sense of prosperity, leading to an overreliance on crude oil exports, massive public spending, an inflated civil service, and an import-dependent economy.¹ When global oil prices collapsed in the early 1980s, the economic vulnerabilities of the Nigerian state became starkly exposed. Inflation soared, foreign reserves declined, industrial output dropped, and the country faced unsustainable external debts. These macroeconomic challenges, compounded by poor fiscal discipline and policy inertia, set the stage for more aggressive economic reforms.²

Upon assuming power in 1985, General Babangida inherited a deteriorating economy with little fiscal room to maneuver. In response, his administration turned to international financial institutions the International Monetary Fund (IMF) and the World Bank for policy advice and financial assistance. Under their guidance, the Structural Adjustment Program (SAP) was introduced in 1986.³ SAP represented a dramatic ideological departure from the previously state-controlled economic model, embracing neoliberal tenets such as economic deregulation, fiscal austerity, trade liberalization, privatization of state-owned enterprises, and a market-determined exchange rate. Among these policy instruments, the devaluation of the naira stood out as both the most symbolic and the most consequential. The naira, once nearly at par with the U.S. dollar in the early 1980s, began to experience a precipitous and unrelenting decline under SAP.⁵

The rationale behind devaluation was to boost non-oil exports by making them more competitively priced in international markets and to curb the unsustainable demand for imports. However, the outcomes did not align with these objectives. Instead, the currency devaluation triggered a cost-push inflation spiral, severely eroded household purchasing power, and worsened the country's debt burden as external debts became more expensive to service.⁶ Furthermore, the widening gap between the official and parallel exchange rates also fueled corruption and speculative practices in the foreign exchange market, further undermining confidence in the naira.⁷

The broader reforms were implemented without adequate institutional frameworks or public consensus, weakening their effectiveness. While SAP aimed to downsize the public sector and encourage private enterprise, the absence of robust regulatory mechanisms and

social safety nets led to massive job losses, increased poverty levels, and widespread social unrest.⁸ Many Nigerians viewed the reforms as externally imposed and disconnected from local realities, and they were further alienated by the lack of transparency and inclusivity in policy formulation.⁹

Labor unions, student movements, and civil society organizations mounted sustained resistance against SAP policies.¹⁰ These protests were not merely reactions to economic hardship but also critiques of the authoritarian governance style that accompanied the reforms. Babangida's regime, in its quest to implement SAP measures, often bypassed democratic consultation and resorted to decrees and technocratic decision-making.¹¹ Public trust in government economic management eroded, and the perception that SAP served elite interests rather than the broader population further delegitimized the reform agenda.¹²

Critics also point out that Babangida's policy choices while packaged as necessary for national survival were deeply shaped by Nigeria's dependence on international creditors and the conditions attached to external loans.¹³ The IMF and World Bank encouraged fiscal discipline but failed to sufficiently account for Nigeria's weak institutional capacity, which impeded effective implementation. Additionally, these institutions underestimated the political implications of rapid liberalization in a fragile, semi-authoritarian context.¹⁴ The reforms, in essence, reflected a one-size-fits-all prescription that lacked ownership and contextual adaptation.

Today, the legacy of Babangida's economic reforms continues to shape Nigeria's fiscal and monetary dynamics. The structural imbalance between consumption and production persists, the naira remains volatile, and the challenge of policy credibility

continues to haunt subsequent administrations. The economic dislocations of the era contributed to the expansion of informal markets, rent-seeking behaviors, and a political economy increasingly resistant to transparency and reform.¹⁵

This study, therefore, investigates how the policies adopted under General Babangida's regime directly influenced the depreciation of the naira, with particular focus on the mechanisms, outcomes, and contradictions embedded in the SAP framework. By critically engaging with historical data, policy documents, and scholarly analysis, this research contributes to a deeper understanding of Nigeria's monetary crisis and offers insights into the complex interplay between governance, economic policy, and currency stability.

Aim and Objectives

This research aims to critically examine the relationship between government policies enacted under General Ibrahim Babangida's military regime and the persistent depreciation of the Nigerian naira. It seeks to analyze the specific policy decision particularly those under the Structural Adjustment Program (SAP) and evaluate their short-term and long-term effects on the value of the national currency, macroeconomic stability, and the socio-economic well-being of Nigerian citizens.

By exploring this relationship, the study intends to offer insights into how state-led economic reforms, when poorly designed or executed, can contribute to currency instability and broader economic challenges. Furthermore, the research aims to inform current and

future policymakers on the dangers of externally imposed economic prescriptions that do not take into account local realities and institutional capacities. These objectives include;

- 1-To provide a historical review of government policies and economic reforms in Nigeria before General Babangida's Regime
- 2- To analyze the major economic policies introduced by General Babangida, particularly the Structural Adjustment Program (SAP).
- 3- To examine how Babangida's economic policies contributed to the depreciation of the Naira.
- 4- To assess the effects of trade liberalization, deregulation, and devaluation under Babangida's regime on Nigeria's exchange rate.
- 5- To investigate the impact of Babangida's monetary and fiscal policies on inflation, unemployment, external debt, and general economic performance.
- 6- To evaluate the socio-economic consequences of Naira depreciation on the Nigerian populace during Babangida's administration.
- 7- To draw lessons from Babangida's economic reforms for contemporary economic and monetary policymaking in Nigeria.

Scope of Study

The scope of this research is limited to Nigeria during the period of General Babangida's rule (1985–1993), with emphasis on the economic policies implemented and their effects on the value of the naira. It will specifically examine the Structural Adjustment Program (SAP) and related reforms such as exchange rate deregulation, privatization, and trade liberalization. While some references will be made to pre- and post-Babangida

administrations for context, the primary focus remains on his regime. Geographically, the study is national in scope, and methodologically, it will draw from historical, economic, and policy analysis.

Methodology

This research adopts a qualitative historical approach, employing secondary sources such as government reports, academic journals, economic data, and books. Content analysis will be used to assess policy documents and trace the trajectory of the naira's depreciation. The study will also engage in critical analysis of statistical indicators such as exchange rate trends, inflation rates, and trade balances between 1985 and 1993. These methods will help establish the link between policy shifts and macroeconomic outcomes. Where necessary, economic theories and policy evaluation frameworks will be used to contextualize findings.

Literature Review

Prior to the administration of General Ibrahim Babangida, Nigeria experienced a period of profound economic challenges that were deeply rooted in structural, fiscal, and policy failures. The economy had become heavily dependent on oil exports following the 1970s boom, which led to the neglect of other vital sectors such as agriculture and manufacturing¹⁶. This mono-product dependency made the country extremely vulnerable to fluctuations in global oil prices, and by the early 1980s, a sharp drop in oil revenue triggered widespread economic instability¹⁷.

The agricultural sector, which had once served as the backbone of Nigeria's economy, contributing significantly to GDP and employment, was left in decay. According to Iyoha and Oriakhi in their book *Explaining Africa Economic Growth Performance* the

sector's contribution to GDP drastically declined as the state prioritized petroleum, leading to massive food imports and rural-urban migration¹⁸. As a result, Nigeria transitioned from being a net exporter of agricultural commodities in the 1960s to a net importer by the 1980s¹⁹.

Simultaneously, in the Central Bank of Nigeria's *Annual Report and Statement of Accounts for the 31st of December 1983*, we are made to understand that the country's fiscal position deteriorated. The federal government ran persistent budget deficits, culminating in a deficit of ₦6.1 billion by 1983²⁰. These deficits were financed largely through domestic and external borrowing, leading to a ballooning external debt portfolio. By 1984, Nigeria's external debt stood at approximately \$18 billion²¹. However, much of these funds were used for non-productive, prestige projects rather than infrastructure or economic diversification, thus failing to generate growth²².

Another critical factor in Nigeria's pre-SAP economic crisis was the poor implementation of economic policies by previous military regimes. The periods were characterized by widespread corruption, lack of transparency, and inefficient allocation of public resources²³. In Claude Ake's *Democracy and Development in Africa* we saw that military rulers were often accused of prioritizing defense spending and white elephant projects at the expense of critical sectors like health, education, and rural development²⁴. As Ake notes, the governance system lacked both accountability and capacity to respond to economic challenges, further deepening the crisis²⁵.

The impact of these structural and policy failures was deeply felt by the Nigerian populace. Inflation soared, with consumer prices rising above 40% in 1984²⁶. According to

Ajakaiye, Olu and Taiwo in their *Structural Adjustment, Poverty, and Economic Growth in Nigeria* we found that during the eras of SAP unemployment was rampant, particularly among young graduates, while the cost of living rose sharply. Compounding this, the naira was grossly overvalued, creating a distortion in the balance of payments and making Nigerian exports less competitive in global markets²⁷.

According to Julius Ihonubere's *The IMF and Politics of Adjustment in Nigeria* by the mid-1980s, Nigeria found itself in a full-blown economic crisis. The government approached the International Monetary Fund (IMF) for assistance and negotiated a proposed loan of \$2.4 billion. However, the conditions attached to the loan currency devaluation, trade liberalization, removal of subsidies, and reduction in government spending sparked public outrage²⁸. Civil society, labor unions, and academics voiced strong opposition, arguing that such measures would worsen poverty and inequality²⁹. Following intense national debate, the IMF loan was rejected in 1985.

In Olukoshi's *The policy of Structural Adjustment in Nigeria* we saw that Despite the public rejection, Babangida's administration went on to implement similar policies under the banner of the Structural Adjustment Program (SAP) in 1986. These reforms were domestically branded to project a sense of ownership, although the core policies aligned closely with the IMF's recommendations³⁰.

By the late 1970s and early 1980s, Nigeria had become heavily reliant on oil as the primary source of national income. Oil accounted for over 90% of foreign exchange earnings and about 80% of government revenues³¹. This overdependence made the economy vulnerable to external shocks, particularly fluctuations in global oil prices. The oil boom of the early 1970s led to a false sense of economic stability and prosperity, prompting a rapid decline in agricultural and industrial productivity.

The neglect of agriculture was particularly damaging. Once a dominant sector employing the majority of Nigerians and a significant contributor to exports, agriculture deteriorated due to poor funding, migration to cities, and the attraction of oil wealth. As a result, Nigeria transitioned from being a net exporter of food to a net importer by the early 1980s³². The overconcentration on oil made the economy mono-structured and ill-prepared for the global oil price crash of the early 1980s, which cut government revenue significantly and exposed the country's weak economic foundation³³.

According to Ibrahim Ayagi's *The Trapped Economy* one of the most damaging macroeconomic policies in Nigeria before Babangida's regime was the deliberate overvaluation of the Naira. The exchange rate system maintained during this period artificially pegged the Naira at a high value relative to major foreign currencies, especially the US dollar. While this policy may have been politically expedient, it had devastating economic consequences. It made Nigerian exports expensive and uncompetitive on the global market while simultaneously making imports cheap and highly attractive³⁴.

As oil revenue declined and foreign exchange earnings dwindled, maintaining an overvalued currency became unsustainable. The Central Bank of Nigeria could no longer support the artificially high exchange rate, leading to growing pressure on the balance of payments and a foreign exchange shortage³⁵. Additionally, the black market for foreign currency expanded, undermining the formal economy and encouraging speculative behavior³⁶.

The overvalued currency, with weak domestic production, encouraged massive importation of goods from food to machinery to consumer products. Nigeria's import bill skyrocketed during this period, draining scarce foreign exchange reserves and worsening the balance of trade³⁷. Between 1980 and 1983, Nigeria's external reserves fell sharply, and foreign debt rose alarmingly as the country borrowed heavily to finance its import-dependent economy³⁸.

In the Central Bank of Nigeria's *Statistical Bulletin vol 5*, it was revealed that the inflation also surged due to the devaluation of the Naira in the parallel market, high public sector spending, and increased costs of imports. The consumer price index (CPI) rose steadily, with inflation reaching over 40% in 1984, pushing more Nigerians into poverty³⁹. Unemployment was also rising, especially among the youth, and living standards were deteriorating. Essential goods became scarce, and queues for basic commodities became a daily reality across Nigerian cities.

By 1986, Nigeria was grappling with a deep economic crisis marked by dwindling oil revenues, mounting debt, high inflation, massive unemployment, and persistent balance of payments deficits. The civilian and early military regimes before General Ibrahim Babangida

had attempted various austerity measures, but these yielded limited success. Upon taking power in 1985, the Babangida administration decided to pursue more radical economic restructuring, culminating in the formal adoption of the Structural Adjustment Program (SAP) in July 1986⁴⁰.

The introduction of SAP was primarily a response to the worsening macroeconomic instability that plagued Nigeria in the early to mid-1980s. The economy had become highly import-dependent, and the overvalued naira discouraged domestic production while encouraging imports. Foreign reserves were depleted, and the country was burdened by rising external debt, estimated at over \$20 billion by 1985⁴¹.

According to Julius Ihonvbere *The IMF and the Politics of Structural Adjustment in Nigeria African Economic History* before SAP, the Nigerian government under the Shagari regime (1979–1983) had sought assistance from the International Monetary Fund (IMF) but failed to implement agreed conditions due to strong domestic opposition. The Babangida regime, in contrast, implemented a domestically designed adjustment program in 1986, though its structure, logic, and prescriptions mirrored the IMF/World Bank model of structural adjustment adopted by many debt-ridden countries in Latin America and Sub-Saharan Africa⁴². According to the Central Bank of Nigeria (1986), SAP was introduced to: restructure and diversify the productive base of the economy. Reduce dependency on the oil sector, achieve fiscal and balance of payments viability lay the foundation for a sustainable, self-reliant growth path⁴³.

According to Toyin Fola and J Steven Salem's *Nigeria Economic Reforms under Structural Adjustment* though the Nigerian SAP was presented as a locally designed

initiative, its theoretical underpinnings and policy tools were heavily influenced by the neoliberal economic ideology promoted by the IMF and the World Bank⁴⁴. Structural adjustment programs globally emerged as the IMF and World Bank's response to the debt crises of developing countries in the early 1980s. These institutions advocated for market-oriented reforms to correct economic distortions and restore macroeconomic balance⁴⁵.

In Nigeria's case, although the IMF loan package of \$2.4 billion was rejected following intense national debate in 1985, Babangida's government adopted nearly all of the IMF's prescribed reforms under the guise of national ownership⁴⁶. This included major policy shifts such as liberalization of trade and finance, currency devaluation, and the withdrawal of government from economic production.

Core SAP Policies: Devaluation, Trade Liberalization, and Subsidy Removal. The SAP was built around three major policy pillars that aimed to correct structural imbalances and restore economic efficiency. One of the most dramatic and controversial components of SAP was the devaluation of the Naira. The official exchange rate shifted from ₦1 to \$1 in 1985 to about ₦4 to \$1 by 1986⁴⁷. This was expected to boost non-oil exports by making Nigerian goods more competitive abroad and reduce reliance on imports. However, in the short term, it led to higher import prices, inflation, and increased cost of living for ordinary Nigerians⁴⁸.

According to Ngozi Okonjo Iweala and Philip Osafo Kwaako's *Nigeria Economic Reforms Progress and Challenges*, SAP removed many of the import restrictions and trade controls that had been used to protect local industries. Tariff barriers were lowered, and the economy was opened up to foreign competition. The goal was to encourage efficiency and

competitiveness in the private sector⁴⁹. Yet, many local industries could not compete and were forced to shut down, leading to job losses and economic displacement⁵⁰.

According to World Bank's *Nigeria Structural Adjustment Program Policies Implementation* SAP also called for the phased removal of subsidies, particularly on petroleum products and agricultural inputs. These subsidies were seen as major fiscal burdens on the government budget. The aim was to reduce public sector deficits and redirect resources to more productive uses⁵¹. However, Claude Ake's *Democracy and Development in Africa* explained that the removal of subsidies triggered public discontent as the prices of fuel, food, and transportation surged, worsening poverty and hardship for the masses⁵².

The Purchasing Power Parity (PPP) theory postulates that in the long run, exchange rates between the implementation of the second-tier foreign exchange market (SFEM) under Babangida was aimed at allowing the exchange rate to reflect market conditions, essentially aligning with the PPP principle. By devaluing the naira from about ₦1 to \$1 in 1985 to ₦4 to \$1 by 1986, the government hoped to restore competitiveness in exports and reduce import dependency⁵³. However, while the PPP framework provided theoretical justification for devaluation, the rapid decline of the naira also fueled inflation and widened income inequalities, especially in the short term⁵⁴.

In Milton Friedman's *Inflation Causes and Consequences* the Monetarist theory of inflation, asserts that inflation is "always and everywhere a monetary phenomenon," resulting from a persistent increase in money supply that exceeds economic output⁵⁵. This therefore explains that in Nigeria during the early 1980s, expansionary fiscal policies, deficit financing,

and excessive government borrowing contributed to an oversupply of money relative to output, leading to high inflation rates.

The SAP, under Babangida, sought to rein in inflation by tightening monetary policy, liberalizing interest rates, and curbing fiscal deficits. The removal of subsidies especially on petroleum and agriculture was intended to cut government spending, while the devaluation of the naira was expected to correct external imbalances⁵⁶. In this regard, the SAP aligned with monetarist thinking: controlling inflation by reducing public sector deficits and avoiding unsustainable money creation. However, these measures also had contradicting effects, particularly on the poor. Inflation persisted due to structural rigidities and rising costs of imported goods after devaluation. The demand and supply theory of exchange rates, rooted in neoclassical economics, holds the foreign exchange, leading to depreciation⁵⁷

According to Graham Bird's *International Monetary System* before SAP, Nigeria's fixed exchange rate regime maintained an artificially high naira value despite dwindling foreign reserves and soaring import bills. The introduction of the SFEM was a practical application of the market-determined exchange rate system, where the naira's value would fluctuate based on demand and supply in the foreign exchange market⁵⁸. This policy tool aligned directly with the market-based exchange rate theory, intended to eliminate distortions, attract foreign investment, and enhance resource allocation efficiency. Over time, the government introduced the Autonomous Foreign Exchange Market (AFEM) and Interbank Foreign Exchange Market (IFEM), further decentralizing exchange rate management⁵⁹. Nevertheless, speculative attacks, capital flight, and policy inconsistencies

undermined confidence in the naira, and the exchange rate became volatile, defying theoretical expectations of long-term stability.

According to the Central Bank of Nigeria *Annual Report and Statement of Accounts for the year ended 31st of December 1986*. The depreciation of the Nigerian naira during and after the Structural Adjustment Program (SAP) of the mid-1980s has been the subject of extensive empirical research. These studies explore the relationships between exchange rate trends, inflationary pressures, foreign reserves, and market behavior particularly under the economic policies adopted during General Ibrahim Babangida's regime.⁶⁰

In Okonjo Iweala's and Philip Osato-Kwaato's *Nigeria Economic Reforms Progress and Challenges* one of the foundational observations from empirical studies is the dramatic shift in Nigeria's exchange rate regime following the implementation of SAP in 1986. The program, which introduced a market-determined exchange rate system, led to a significant devaluation of the naira.⁶¹ According to Obadan, the naira depreciated from ₦0.89 to US\$1 in 1985 to ₦4.54 to US\$1 by 1992, marking a more than 400% decline in value within seven years⁶² This sharp depreciation was driven largely by policies such as foreign exchange market liberalization and currency devaluation, which were promoted as tools for correcting balance of payment deficits and enhancing export competitiveness.

Inflationary tendencies during this period have also been closely studied. Studies by Adebisi and Dauda in *Trade Liberation Policy and Industrial Performance* show a strong correlation between currency depreciation and inflation, as the higher cost of imports fed directly into domestic prices Imported inflation, coupled with the withdrawal of subsidies (another SAP requirement), intensified the cost of living crisis for many Nigerians⁶³.

For instance, between 1986 and 1989, inflation rose from 5.4% to over 50%, reflecting the macroeconomic instability that accompanied the SAP-era reforms⁶⁴. Foreign reserves and external sector dynamics were also influenced by the naira's depreciation. Empirical work by Oyejide and Sanusi observed that while devaluation was intended to stimulate exports and reduce import dependency, the results were mixed. Nigeria's export base remained largely narrow, dominated by crude oil, which was still priced in U.S. dollars and controlled by international markets⁶⁵. Consequently, even though local currency earnings increased, actual foreign exchange inflows did not diversify significantly. Furthermore, capital flight and speculative demand for foreign currencies contributed to pressure on Nigeria's foreign reserves during this time⁶⁶

Market behavior, particularly in the foreign exchange market, also exhibited signs of volatility and inefficiency. The introduction of the Second-Tier Foreign Exchange Market (SFEM) and later the Foreign Exchange Market (FEM) allowed the naira to float against the dollar. However, due to administrative bottlenecks and continued government intervention, the market never achieved full transparency or efficiency. Empirical research by Nnanna, Englama, and Odoko noted that the dual exchange rate system encouraged arbitrage and rent-seeking behavior, which further weakened the naira and eroded public trust in the policy framework.⁶⁷

One of the most pointed criticisms of SAP under Babangida was its negative impact on poverty and income distribution. While the program sought to encourage efficiency through deregulation, privatization, and currency devaluation, its social consequences were severe. The removal of subsidies especially on essential goods like fuel, healthcare, and

education disproportionately affected the poor. Studies by Ajakaiye and Akinyemi noted that the poverty headcount increased from about 28.1% in 1980 to nearly 43% by 1992, indicating a widening gap between the rich and the poor during the SAP years.⁶⁷ According to Kennedy Okpala and Onyinyechi's *Exchange Rate Volatility and Macroeconomic Performance in Nigeria* urban unemployment rose due to the retrenchment of workers in both public and private sectors, while rural dwellers faced declining incomes from falling agricultural prices despite government promises of diversification.⁶⁸

SAP also introduced a significant increase in income inequality because as the naira depreciated rapidly and prices surged, those with access to foreign exchange or import licenses thrived, while the majority of the population struggled to afford basic goods.⁶⁹ The dual exchange rate system created opportunities for elite profiteering and corruption, further marginalizing average Nigerians⁷⁰. According to Olukoshi's *Politics of Structural Adjustment in Nigeria*, the SAP created "a two-tiered society: one that benefited from economic liberalization and one that was crushed by it."⁷¹ Thus, rather than narrowing disparities, SAP entrenched socioeconomic divisions.

Another major critique is that the SAP was externally imposed and ideologically driven by Western financial institutions with little regard for Nigeria's historical or social realities. The program was rooted in neoliberal economic theories promoted by the Bretton Woods institutions, particularly the IMF and World Bank. These policies emphasized market liberalization, reduced government spending, and privatization which are all hallmarks of the "Washington Consensus." However, critics like Claude Ake in *The Unique Case of African Democracy* argued that SAP was an externally crafted experiment imposed on African states,

including Nigeria, without adequate consultation or adaptation to local conditions⁷². Nigeria's economic crisis was thereby managed through a "one-size-fits-all" prescription that failed to recognize the country's structural weaknesses and political economy.

Furthermore, the lack of Nigerian ownership and accountability in the formulation and execution of SAP deepened its ineffectiveness. Although the Babangida regime publicly defended SAP, many observers argued that the government implemented the program more out of pressure from international creditors than from a conviction in its merits. Eghosa Osaghae noted in *Nigeria Since Independence* that the Babangida administration adopted SAP in an "authoritarian and top-down fashion," bypassing popular input or legislative debate⁷³.

In conclusion, SAP further eroded Nigeria's economic sovereignty. The country's overreliance on foreign loans and prescriptions weakened national policy autonomy, leading to what some scholars have called "economic recolonization".

"Babangida's SAP, rather than empowering Nigeria to build a resilient, inclusive economy, arguably subjected it to the whims of international financiers and market forces. While Babangida's Structural Adjustment Program was introduced to poverty and inequality, lacking home-grown legitimacy, and serving the interests of external actors more than Nigerian citizens SAP under Babangida represents a cautionary tale in economic policymaking. Its legacy continues to shape the discourse on development, sovereignty, and accountability in Nigeria's post-colonial statecraft.

Chapter Outline

Chapter One: Background to the Study

This chapter provides an overview of the entire research work and serves as an introduction to the examination of government policies and the depreciation of the naira during General Ibrahim Babangida's regime (1985–1993). It outlines the historical and economic context in which policy decisions were made, particularly under the Structural Adjustment Program (SAP). The chapter also presents the foundational framework upon which the study is built. It covers the introduction to the topic, the aims and objectives of the

Chapter Two: A Background of Government Policies and Economic Reforms in Nigeria Before Babangida's Regime

This chapter provides a historical background of government policies and economic reforms in Nigeria prior to General Babangida's regime. It examines key economic strategies from the post-independence era, and the oil boom years, highlighting their impact on the nation's fiscal and monetary systems. The chapter sets the foundation for understanding the policy environment that shaped Babangida's reforms and the subsequent depreciation of the Naira.

Chapter Three: Economic Policies of General Ibrahim Babangida and the Depreciation of the Naira

This chapter critically examines the economic policies implemented under General Ibrahim Babangida's regime, with a focus on the Structural Adjustment Program (SAP) and related reforms. It explores how trade liberalization, deregulation, and currency devaluation shaped Nigeria's economic trajectory. Particular attention is given to the link between these

policies and the persistent depreciation of the Naira during his administration. Special attention is given to the exchange rate systems, inflationary trends, and currency management practices under General Babangida's regime.

Chapter Four: Impact of General Babangida's Economic Policies (1985-1993)

This chapter evaluates the overall impact of General Babangida's economic policies on Nigeria's economy and society. It discusses the consequences of Naira depreciation on inflation, employment, poverty levels, and living standards. The chapter also assesses the long-term implications of these policies for Nigeria's economic stability and development.

Chapter Five: Conclusion

This chapter summarizes the key findings of the study on government policies and the depreciation of the Naira under General Babangida's regime. It highlights the major lessons drawn from the analysis of his economic reforms and their impacts. The chapter concludes with recommendations for future economic policymaking and areas for further research.

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CHAPTER TWO

A BACKGROUND OF ECONOMIC POLICIES AND ECONOMIC REFORMS IN NIGERIA BEFORE BABANGIDA'S REGIME

This essay examines Nigeria's economic policies and reforms from independence in 1960 to the eve of the Babangida era in August 1985. It explores colonial legacies, early post-independence planning, import substitution industrialization (ISI), the civil war and post-war reconstruction, the 1970s oil boom, state-led industrialization, indigenization, agricultural reforms, land tenure policies, macroeconomic management, and administrative controls under the Buhari/Idiagbon regime. The essay argues that while pre-Babangida policies were ambitious, they suffered from weak implementation, over-reliance on oil revenues, import dependence, and institutional bottlenecks, which set the stage for later structural adjustments.¹ On 1 October 1960, Nigeria gained independence, inheriting an economy shaped by colonial priorities: export-oriented agriculture, commodity marketing boards, and a nascent monetary and financial system. Economic management during the first 25 years after independence was shaped by the need to build national unity, promote development, and diversify an economy heavily reliant on primary commodities. Governments oscillated between ambitious state-led interventions and short-term measures designed to maintain fiscal balance and manage the effects of global commodity markets.²

The 1970s oil boom provided unprecedented resources for public investment in infrastructure, heavy industry, and social programs. However, rapid expansion created challenges: overvaluation of the currency, import dependence, inflationary pressures, and

institutional weaknesses. By the early 1980s, declining oil prices exposed these vulnerabilities, prompting austerity measures and administrative controls. Understanding the policies and reforms prior to Babangida's era is crucial to comprehending the rationale behind structural adjustments introduced after 1985.³ The economic history of Nigeria before the Babangida era was defined by shifting paradigms, inconsistent policies, and the structural weaknesses of a postcolonial state. From independence in 1960 to 1985, successive administrations introduced economic strategies intended to modernize the economy, reduce dependence on foreign capital, and improve citizens' welfare. However, reforms were often poorly implemented, reactive rather than proactive, and deeply influenced by external economic forces, such as fluctuations in oil prices and global financial markets⁴.

The historical background of Nigeria's economic reforms reveals an oscillation between state-led intervention and market-oriented approaches. Civilian governments tended to favour ambitious development plans, while military regimes, although authoritarian, often pursued indigenization, nationalization, and resource control. Despite these initiatives, Nigeria's heavy reliance on crude oil revenues, widespread corruption, and political instability undermined economic progress⁵. This chapter provides a comprehensive review of government policies and reforms in Nigeria before the Babangida regime. It begins with a conceptual and theoretical review of relevant ideas, followed by an analysis of the key policies pursued by different governments from 1960 to 1985. It then considers existing scholarly works in the empirical review and identifies critical gaps in the literature.

Government Policies

Government policy refers to the deliberate actions, strategies, and directives implemented by state authorities to regulate, guide, or stimulate the economy. Policies may be fiscal (taxation, government expenditure), monetary (interest rates, money supply), industrial (supporting domestic production), or agricultural (boosting food and cash crop output). In Nigeria, government policies often reflected short-term responses to crises rather than long-term strategies⁶. For instance, during the First Republic, government policies were regionally oriented, with each region developing agricultural export products: cocoa in the West, groundnut pyramids in the North, and palm produce in the East⁷. However, by the 1970s, the oil boom shifted policy orientation toward revenue centralization and state-led spending, sidelining earlier agricultural policies⁸.

Economic Reforms

Economic reforms can be defined as systematic changes intended to restructure an economy to improve efficiency, productivity, and equity. Reforms may involve liberalization, privatization, nationalization, currency adjustments, or trade restrictions. In Nigeria before Babangida, reforms were typically framed around national control of resources, agricultural modernization, and attempts at industrial diversification⁹. One of the most notable reforms was the Nigerian Enterprises Promotion Decree of 1972, commonly referred to as the Indigenization Decree, which restricted foreign ownership of businesses in certain sectors. While the decree aimed to empower Nigerians economically, in practice it primarily benefited the political and business elite who had the resources to buy out foreign companies¹⁰.

Nigeria's Pre-Babangida Economic Context

By the early 1980s, Nigeria had transitioned from an agrarian economy to a predominantly oil-dependent one. The oil boom of the 1970s created a rentier state dynamic in which government revenue came overwhelmingly from oil exports, reducing incentives for domestic production and diversification¹¹. The collapse of oil prices in 1981 revealed the fragility of this structure, as external debt ballooned, unemployment rose, and inflation worsened. These conditions set the stage for the more radical reforms of the Babangida government. Various economic theories were employed by Nigeria before the Babangida regime. These include; modernization theory, dependency theory, Keynesian Economics, Dependency theory, Rentier State theory among others.

Modernization theory suggests that societies move from traditional to modern stages through industrialization, urbanization, and technological adoption¹². Nigerian leaders in the 1960s embraced this approach, emphasizing import substitution industrialization (ISI) to reduce dependence on foreign goods. While this policy stimulated some local production, the lack of capital, technology, and skilled manpower undermined its sustainability¹³. Dependency theory, advanced by scholars like Andre Gunder Frank, posits that developing nations remain dependent on advanced economies through unequal trade and investment relations¹⁴. Nigeria's economic experience illustrates this, as the country relied on oil exports to industrialized nations while importing most manufactured goods. Even indigenization and nationalization policies failed to reduce dependency because of the reliance on foreign technology and expertise¹⁵.

Keynesian economics emphasizes state intervention in managing demand, employment, and public welfare. The oil boom allowed successive governments to apply Keynesian ideas, investing heavily in infrastructure, education, and public corporations¹⁶. However, unlike advanced economies where such investments spurred productivity, in Nigeria these policies encouraged inefficiency and corruption. The Rentier state theory explains how countries dependent on natural resource rents often experience weak institutions, patronage politics, and underdeveloped productive sectors¹⁷. Nigeria's reliance on oil rents in the 1970s exemplified this phenomenon, as easy revenues discouraged diversification and fostered elite accumulation.

Economic Policies and Reforms in Nigeria Before Babangida's Regime(1960-1985)

The First Republic (1960-1966) emphasized agricultural development, as agriculture accounted for over 60 percent of GDP and 70 percent of exports.¹⁸ Regional governments pursued policies tailored to their comparative advantages: cocoa in the West, palm produce in the East, and groundnuts in the North. Import substitution industrialization also began during this period, with tariff protections and subsidies for local industries. However, political instability, ethnic tensions, and weak industrial capacity hindered growth. Moreover, revenue allocation disputes between the federal and regional governments created tensions that ultimately contributed to the Republic's collapse¹⁸

Following the Nigerian Civil War, General Yakubu Gowon launched the Three Rs Reconciliation, Rehabilitation, and Reconstruction. Oil revenues from the 1970s financed extensive infrastructural development, expansion of public services, and the creation of new states to ease ethnic tensions. The Nigerian Enterprises Promotion Decree of 1972 aimed to

transfer ownership of businesses from foreigners to Nigerians. However, scholars argue that it largely empowered a narrow elite class without broadening economic participation²⁰. Corruption also became entrenched, as oil wealth fuelled rent-seeking behaviours.

The Murtala/Obasanjo era marked a shift toward radical nationalism. The regime nationalized British Petroleum (BP) and Barclays Bank and promoted Operation Feed the Nation (OFN) to address food shortages. The Land Use Act of 1978 centralized land ownership under the government, aiming to make land more accessible for development²¹. Public sector reforms, notably the Udoji Salary Review Commission, significantly increased wages, further expanding public expenditure. However, OFN failed due to poor implementation and insufficient incentives for farmers²².

The Second Republic under President Shehu Shagari introduced the Green Revolution to boost agricultural output. Unfortunately, the global oil glut of the early 1980s reduced government revenue, forcing austerity measures. Import licensing and foreign exchange controls were introduced to conserve foreign reserves²³. By 1983, Nigeria faced a debt crisis, high inflation, and rampant unemployment. Corruption and patronage politics further eroded policy credibility²⁴. The economic crisis contributed to the military coup that ended Shagari's administration.

General Muhammadu Buhari adopted a hard line approach to economic management. His government rejected IMF loans, imposed strict import restrictions, encouraged counter-trade arrangements, and pursued fiscal austerity²⁵. The regime also launched the War Against Indiscipline (WAI) to combat corruption and inefficiency. Although Buhari's policies aimed to stabilize the economy, they produced limited results due to their short duration and

repressive enforcement. The government's unwillingness to adopt IMF conditions, however, set the stage for Babangida's subsequent embrace of Structural Adjustment Programs (SAP).

Development Planning and Import Substitution (1962–1966)

Nigeria's First National Development Plan (1962–1968) represented the country's earliest attempt to chart a coordinated economic strategy after independence. The plan focused on import substitution industrialization (ISI), agricultural modernization, transport, and educational sector²⁹. Its overarching goal was to accelerate national development by reducing dependence on imported goods, diversifying production, and laying the foundation for an integrated economy. This was in line with the broader developmental thinking of the 1960's which saw state-led planning as the most effective way of newly independent African nations to overcome colonial economic legacies

One of the key legacies of the first plan was the establishment of institutional frameworks for economic governance. These include the adoption of five-year development planning cycles, the creation of public corporations to drive state-led industrialization, and tariff protection policies designed to shield emerging industries from external competition³⁰. In addition, marketing boards were strengthened to stabilize producer prices, ensuring steady income for farmers and predictable revenue for government. These policy frameworks reflected a deliberate effort to blend state control with market initiatives, therefore anchoring experiments with developmental planning,

Despite these achievements, the first plan faced major challenges in implementation. Domestic value added in industries remained limited, as most assembly plants still depended on imported inputs.³¹ Regional disparities persisted, with the more industrialized west and

Lagos area benefiting disproportionately compared to other regions. Moreover, political instability, ethnic competition, and weak administrative capacity undermined the effectiveness of the plan. Many projects were left incomplete or poorly executed, revealing the gap between the ambitious goals of policy makers and the institutional realities of the time. These shortcomings would later influence subsequent plans and shape Nigeria's mixed experience with state-led development.

Civil War and Post-War Reconstruction

The outbreak of the Nigerian Civil War in 1967 marked a profound turning point in the country's economic and political trajectory. National resources were diverted toward wartime financing, military, logistics, and sustaining the federal war effort. Economic priorities shifted drastically from long-term development planning to the immediate needs of maintaining territorial integrity and suppressing secession. The conflict severely disrupted trade and agricultural production, particularly in the Eastern region where hostilities were most intense. Infrastructures such as roads, bridges, and markets were destroyed, leaving behind deep scars that demanded urgent reconstruction once the year was ended.

In the aftermath of the conflict, the federal government recognized the urgent need for a comprehensive recovery strategy. This recognition gave rise to the Second National Development Plan (1970-1974), which was explicitly framed around the goals of Reconstruction, Rehabilitation and Reconciliation³². The plan symbolized both a practical and symbolic response to the devastation of the war. Its objectives extended beyond repairing physical infrastructure to rebuilding social trust, reintegrating the war-torn regions, and

restoring the policy, the government sought to demonstrate that national healing could be achieved alongside material progress.

Agriculture received particular attention in the post-war years, especially in the regions most affected by the conflict. Programs were introduced to restore agricultural production, rehabilitate displaced farmers, and stimulate rural employment³³. The government's efforts in this regard were crucial for stabilizing food supplies and restoring livelihoods. However, the broader trend of neglecting agriculture in favor of oil-driven industrialization meant that these initiatives had limited long-term impact. By the mid-1970s, Nigeria was increasingly reliant on oil revenues, while agricultural productivity stagnated. This structural imbalance would become a defining feature of the economy in subsequent decades.

The Oil Boom, State-Led Industrialization, and Indigenization (1973–1979)

The oil price shocks of 1973–1974 transformed Nigeria's fiscal capacity. The Third National Development Plan (1975–1980) emphasized massive public investment in roads, steel, petrochemicals, refineries, cement, housing, and vehicle assembly³⁴. The Nigerian Enterprises Promotion Decrees of 1972 and 1977 introduced indigenization policies, mandating Nigerian ownership or majority equity in certain sectors³⁵. While the decrees increased local participation in banking, insurance, and commerce, limited access to finance and managerial expertise constrained transformative impacts. The Land Use Act of 1978 centralized land ownership under state governors, theoretically improving access for industrial and urban development. Critics, however, noted bureaucratic hurdles and restrictions on private land transactions³⁶.

Agricultural Policies: Marketing Boards, Operation Feed the Nation, and Green Revolution.

Agriculture stagnated as oil wealth drew labor toward urban areas and imports flooded the market. To counteract this, the government introduced fertilizer subsidies, River Basin Development Authorities, and mass mobilization programs³⁷ Operation Feed the Nation (OFN) under General Obasanjo (1976–1979) aimed to increase domestic food production through education, extension services, and input support. The Green Revolution (from 1980 under Shagari) expanded mechanization, irrigation, and input delivery. Evaluations highlight short-term gains but note weak institutional coordination and sustainability challenges³⁸.

Heavy Industry and Infrastructure

Ambitious projects included the Ajaokuta Steel Complex, Delta Steel, petrochemical plants and vehicle assembly plants across states³⁹. These projects symbolized a developmental state but suffered from cost overruns, foreign technology dependence, and low operational efficiency. Import dependence for inputs and spare parts left industries vulnerable to global price swings⁴⁰.

Microeconomics Management and Austerity (1979–1983)

The decline in oil prices after 1981 exposed structural vulnerabilities: overvalued naira, rising imports, external debt, and fiscal deficits. The Fourth National Development Plan (1981–1985) maintained investment ambitions but faced cash constraints. Economic stabilization policies included import licensing, higher tariffs, excise duties, and foreign exchange rationing⁴¹. Agriculture continued to receive attention via the Green Revolution, yet

food import dependence persisted. Industrial protection was maintained through licensing rather than productivity-enhancing reforms⁴².

Buhari/Idiagbon Government: Administrative Controls (1984–1985)

The military regime of Buhari and Idiagbon (1983–1985) intensified austerity, import bans, and exchange controls, rejecting IMF-backed devaluation packages. The War Against Indiscipline (WAI) campaign sought ethical governance and compliance in public administration⁴³. Border closures and stricter customs enforcement were introduced to conserve foreign exchange and curb smuggling. While these measures temporarily stabilized prices and foreign reserves, shortages deepened, industrial capacity utilization fell, and the economy remained fragile⁴⁴.

Key continuities include reliance on state-led planning, ambitious heavy industry, and agriculture as a policy priority. Contradictions existed: indigenization without adequate managerial capacity, centralized land reform but bureaucratic hurdles, and oscillation between expansionary investment and administrative austerity. These factors contributed to the economic crises of the early 1980s and made market-oriented reforms under Babangida politically and economically viable⁴⁵.

In conclusion, from independence to 1985, Nigeria's economic policies reflected the tension between developmental ambition and structural weaknesses. State-led industrialization, indigenization, agricultural mobilization, and land reform marked the policy landscape. Dependence on oil, administrative bottlenecks, and global market vulnerabilities shaped the pre-Babangida era, highlighting why structural adjustment and market-oriented reforms became necessary post-1985.

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CHAPTER THREE

ECONOMIC POLICIES OF GENERAL IBRAHIM BABANGIDA AND THE DEPRECIATION OF THE NAIRA

General Ibrahim Babangida assumed power in August 1985 at a time of severe economic crisis in Nigeria. The country was grappling with declining oil revenues, mounting external debt, falling foreign reserves, and rising unemployment. The preceding regime under General Muhammadu Buhari had pursued an austerity program, resisting external borrowing and conditions from international creditors. While this approach reflected nationalist economic priorities, it also deepened economic contraction and worsened relations with international financial institutions. Against this backdrop, Babangida embraced an ambitious reform package in 1986, adopting the Structural Adjustment Program (SAP), which was heavily influenced by the International Monetary Fund (IMF) and the World Bank.¹ One of the most striking outcomes of SAP was the sharp depreciation of the Nigerian naira. The trajectory of the naira during Babangida's rule thus provides a critical lens for analyzing the exchange rate systems, inflationary dynamics, and currency management practices that shaped Nigeria's macroeconomic fortunes between 1985 and 1993.

The era of General Ibrahim Badamasi Babangida (IBB) represents one of the most consequential turning points in Nigeria's post-independence economic history. From his assumption of power in August 1985 to his departure in August 1993, Babangida presided over a period of far-reaching market-oriented reforms. Faced with a worsening fiscal and external balance crisis, collapsing oil revenues, and chronic economic mismanagement inherited from previous administrations, his government introduced the Structural

Adjustment Program in 1986.² While SAP was designed to correct macroeconomic imbalances, liberalize the economy, and stimulate private-sector growth, it also triggered profound dislocations, particularly through the marked and sustained depreciation of the naira.

Babangida justified SAP on the grounds that Nigeria's economic predicament required structural transformation. Unlike Buhari, who rejected IMF conditions and pursued a more insular approach, Babangida embraced trade liberalization, privatization, subsidy removal, and a radical overhaul of the exchange rate regime.³ These reforms were aimed at restoring balance-of-payments equilibrium, promoting non-oil exports, and stimulating private-sector activity. At the core of the adjustment package was currency devaluation, which the regime argued was necessary to correct the long-standing overvaluation of the naira. Before 1986, the currency had been pegged at artificially strong rates relative to the US dollar, a policy that encouraged imports and discouraged exports. By the mid-1980s, however, Nigeria's foreign reserves were depleted, and mounting external obligations left the government with little choice but to allow the currency to reflect market realities.⁴

The economic context that Babangida inherited was marked by fragility and structural weaknesses. By 1985, the oil boom of the 1970s had already receded, exposing Nigeria's chronic overreliance on hydrocarbon exports. The country's dependence on imports for both consumer and capital goods left domestic industries vulnerable, while external borrowing expanded unsustainably. Weak competitiveness in manufacturing, combined with fiscal profligacy, had compounded the crisis.⁵ The global oil price decline of the early 1980s further precipitated a collapse in export earnings and foreign exchange receipts, leading to surging

inflation and unemployment. At the same time, the fixed or administratively managed exchange rate regime created a growing divergence between the official and the parallel market rates, encouraging rent-seeking and arbitrage.⁶

These structural imbalances and external shocks framed Babangida's policy choices. His administration sought to break from the statist model of development that had dominated since independence and to reorient the economy toward market liberalization. By introducing SAP, Babangida positioned his government as willing to adopt orthodox economic reforms, even at the cost of social and political tensions.⁷ While the reforms were presented as a necessary corrective to decades of economic mismanagement, they also carried enormous social and distributional consequences, particularly through the collapse of the naira and the hardships that followed.⁸

Main Elements of Babangida's Economic Program

A central component of the program was exchange-rate reform and foreign-exchange liberalization. Before SAP, Nigeria operated under a rigid, highly managed exchange-rate system that created inefficiencies and encouraged black-market activity. To address this, Babangida's government introduced the Second-Tier Foreign Exchange Market (SFEM), later expanded into various foreign-exchange auction mechanism. These reforms sought to replace the single fixed rate with market determined system, thereby eliminating dual exchange rates and bringing the naira closer to its "realistic" value⁹. This move was considered essential to restore credibility to Nigeria's foreign-exchange regime and ensure the currency better reflected underlying economic fundamentals.

Closely related to exchange-rate reform was the policy of currency devaluation. The naira had been grossly overvalued in the years preceding SAP, undermining Nigeria's export competitiveness and encouraging imports at the expense of domestic production. Devaluation was therefore pursued to correct this imbalance, narrow the gap between the official and parallel market rates, and improve the country's balance-of-payments position.¹⁰ While it provoked significant inflationary pressures and hardship, devaluation was regarded as a necessary tool to restore external viability and encourage export-oriented growth.

Another pillar of SAP was trade liberalization and import deregulation. Prior to the reforms, Nigeria's trade regime was characterized by high tariffs, extensive import licensing, and pervasive restrictions.¹¹ Under Babangida, many of these barriers were reduced or dismantled in order to encourage competition, improve efficiency, and ultimately lower consumer prices. By liberalizing trade, the government hoped to shift Nigeria from an inward-looking, protectionist economy toward a more open, globally integrated one.

Complementing trade reform was a bold initiative of privatization and commercialization. State-owned enterprises had long been a drain on public finances, operating inefficiently and consuming scarce resources.¹² SAP sought to reverse this by transferring many of these enterprises to private ownership or management. Privatization was expected to improve productivity, stimulate investment, and reduce the financial burden of government subsidies. Commercialization, in turn, required public enterprises that remained under state control to adopt profit-oriented business practices rather than relying on government support.

The program also emphasized fiscal austerity and monetary restraint. Nigeria had been grappling with mounting budget deficits, unsustainable subsidies, and inflationary pressures driven by uncontrolled public spending.¹³ SAP addressed these challenges by implementing expenditure cuts, reducing subsidies, and tightening monetary policy. The goal was to rein in deficits, curb inflation, and restore macroeconomic stability. However, these measures often translated into painful sacrifices for ordinary Nigerians, as the removal of subsidies and the shrinking of public-sector employment hit households hard.

Finally, the reforms extended to the financial sector. Interest rates, which had previously been tightly controlled, were deregulated to allow for greater efficiency in capital allocation.¹⁴ The licensing of new banks, including the establishment of community banks and the People's Bank, aimed to expand financial intermediation and improve access to credit. These measures were intended not only to modernize Nigeria's financial system but also to broaden participation in the economy, especially among small-scale entrepreneurs and rural communities.

Taken together, Babangida's SAP represented a comprehensive attempt to reorient the Nigerian economy toward liberalization, efficiency, and market-driven growth. While the government tried to cushion the immediate social costs through safety-net programs such as the People's Bank and community development initiatives, the reforms nonetheless provoked widespread social discontent due to inflation, job losses, and declining living standards.¹⁵ Yet, in historical perspective, the program reflected Nigeria's most ambitious effort at structural transformation, blending international orthodoxy with local adaptation in a bid to address the country's deep-seated economic crises.

Mechanisms Driving Naira Depreciation

One of the most significant mechanisms was the unmasking of overvaluation. Prior to SAP, Nigeria's exchange rate had been held artificially strong through administrative controls. The introduction of the Second-Tier Foreign Exchange Market (SFEM) and subsequent devaluation measures simply revealed the true market price of the naira, which had long been distorted by official policy. As the official rate converged with the parallel market, a sharp "step devaluation" occurred, reflecting the extent to which the naira had been previously overvalued.¹⁶

Equally important were persistent current-account pressures and oil dependence. Nigeria's export earnings were overwhelmingly tied to oil, leaving the country highly vulnerable to price volatility and production shortfalls. Fluctuating oil receipts translated into fragile foreign-exchange reserves, which proved insufficient to support the naira in times of global price downturns. Thus, even as reforms were underway, the structural reliance on oil undermined currency stability.¹⁷

Inflation differentials and fiscal deficits also drove depreciation. Nigeria experienced chronically high inflation, fuelled by expansionary fiscal policies and recurring budget deficits. Rising domestic prices eroded the real exchange rate, reducing competitiveness and creating additional pressure on the naira. The inability of fiscal authorities to enforce long-term budgetary discipline meant that monetary expansion continually undercut exchange-rate reforms.¹⁸

Another critical factor was capital flight and speculative pressures. Political instability, coupled with doubts about the transparency and fairness of Babangida's reforms,

encouraged both domestic and foreign investors to shift capital abroad. This behavior heightened demand for hard currency, creating speculative pressure that further weakened the naira. In many cases, Nigerians converted their naira holdings into dollars not only as a hedge against inflation but also as a safeguard against policy reversals.¹⁹

Finally, structural rigidities and supply constraints limited the capacity of the Nigerian economy to respond positively to liberalization. Domestic industries were too weak to substitute for imports in the short term, meaning that trade deregulation actually expanded demand for foreign exchange. Importers, faced with new opportunities under liberalization, increased their demand for dollars, placing further strain on reserves. Without a corresponding expansion in domestic production, the naira remained exposed to sustained downward pressure.²⁰

In sum, while SAP's liberalization measures were intended to correct distortions and restore competitiveness, the interaction of hidden overvaluation, fragile oil earnings, macroeconomic imbalances, speculative behavior, and structural weaknesses ultimately ensured that the naira continued to depreciate. The reforms revealed the depth of Nigeria's economic vulnerabilities and underscored how currency management cannot succeed in isolation from broader fiscal, structural, and institutional reforms.

In conclusion, General Ibrahim Babangida's economic policies most notably the 1986 Structural Adjustment Program were bold attempts to rescue Nigeria from macroeconomic collapse through liberalization, devaluation, and privatization. These policies were driven by clear macroeconomic rationales: correcting an overvalued exchange rate, restoring external

competitiveness, and addressing fiscal and balance-of-payments imbalances. Yet, the shift from administrative controls to market-determined systems unmasked deep institutional and structural weaknesses. Coupled with external shocks and weak implementation, these policies led to sustained naira depreciation, escalating debt, and significant social hardship.

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CHAPTER FOUR
IMPACT OF GENERAL BABANGIDA'S ECONOMIC
POLICIES (1985-1993)

General Ibrahim Babangida's regime (1985–1993) marked one of the most transformative and controversial periods in Nigeria's economic history. Coming into power at a time of severe fiscal crisis, dwindling foreign reserves, and mounting debt obligations, his government embarked on radical reforms in an attempt to reposition the economy. The centre piece of these reforms was the Structural Adjustment Program (SAP), introduced in 1986 with support from the International Monetary Fund (IMF) and World Bank, which aimed to liberalize the Nigerian economy, reduce dependence on oil, and stimulate non-oil exports.¹

These policies were driven by both internal pressures such as high inflation, an overvalued currency, and declining productivity and external constraints, including falling oil prices in the mid-1980s and mounting international debt.² By dismantling the system of state controls that had dominated Nigeria's economic management since independence, Babangida's administration sought to embrace market-oriented principles: deregulation, privatization, currency devaluation, and trade liberalization.³

However, the impact of these reforms was deeply paradoxical. On one hand, they revealed the structural weaknesses of Nigeria's economy, unmasking the unsustainable overvaluation of the naira, the fragility of oil dependence, and the inefficiency of state enterprises.⁴ On the other hand, the reforms unleashed social discontent, exacerbated poverty, widened inequality, and contributed to political instability.⁵ As such, Babangida's economic

policies are remembered as both a bold attempt at structural transformation and a source of long-term socio-economic dislocation⁶.

In evaluating the Babangida years, it is therefore essential to examine not only the stated objectives of his reforms but also their unintended consequences for currency stability, trade and industry, social welfare, and the political legitimacy of the Nigerian state. This dual legacy makes the period a critical chapter in understanding Nigeria's economic trajectory.⁷

Effects of the Structural Adjustment Program (SAP)

The introduction of the Structural Adjustment Program (SAP) in July 1986 marked a decisive turning point in Nigeria's economic history. Conceived with the support of the International Monetary Fund (IMF) and World Bank, the program was intended to restore macroeconomic balance, promote efficiency, and reduce the country's overreliance on oil revenues. However, while the reforms aimed at stabilizing the economy, their impacts were both profound and controversial, leaving behind a legacy of economic dislocation and social hardship.

One of the most immediate consequences of SAP was severe inflation. The devaluation of the naira sharply increased the cost of imported goods, including essential commodities such as food, machinery, and fuel⁸. The government's decision to remove subsidies particularly on petroleum products further aggravated the situation, raising transportation and production costs. As a result, many households faced declining purchasing power as real wages stagnated. The erosion of living standards became one of the most widely felt effects of the program, particularly among Nigeria's urban poor⁹.

Closely tied to inflation was the worsening of poverty and unemployment. SAP called for a comprehensive restructuring of the public sector, which included the downsizing of government institutions and the privatization of state-owned enterprises. While this move was justified as a strategy to promote efficiency, it also resulted in mass retrenchments and widespread job losses.¹⁰ Unemployment climbed steadily, and poverty levels deepened across the country, especially in urban centers where families were forced to grapple with high living costs amid dwindling income opportunities.¹¹ By the late 1980s and early 1990s, research showed a dramatic rise in the incidence of poverty, underscoring the program's harsh social consequences.¹²

Another key objective of SAP was to promote export diversification beyond oil. The devaluation of the naira was expected to make non-oil exports such as cocoa and palm oil more competitive on global markets. Although there were modest gains in agricultural exports, the broader industrial sector struggled to achieve sustained growth. Many industries suffered from low capacity utilization, inadequate infrastructure, and rising production costs, limiting the anticipated benefits of liberalization.¹³ Instead of driving broad-based industrial growth, the reforms exposed the structural weaknesses of Nigeria's economy.

The debt dimension of SAP further compounded Nigeria's economic challenges. As part of the reform package, Babangida's administration entered into debt restructuring agreements with international creditors. While these arrangements provided short-term relief, the overall external debt burden continued to grow, consuming an increasing share of foreign exchange earnings¹⁴. Servicing these debts placed a heavy strain on fiscal resources,

crowding out investments in crucial social sectors such as education and healthcare. Over time, this widened inequality and entrenched long-term developmental setbacks¹⁵.

On an institutional level, SAP reshaped the architecture of Nigeria's economic management. The establishment of the Second-Tier Foreign Exchange Market (SFEM) and subsequent evolution into a more flexible exchange rate regime marked a decisive shift from centralized state control to market-based allocation of foreign exchange¹⁶. Privatization frameworks laid the groundwork for future liberalization, while financial reforms spurred the growth of private banking.¹⁷ Yet these structural transformations disproportionately benefited political and economic elites, creating new opportunities for rent-seeking and corruption.¹⁸ Rather than leveling the economic playing field, SAP deepened existing inequalities and further undermined institutional integrity.

The social and political consequences of SAP were equally significant. Rising hardship provoked widespread discontent, expressed through strikes, protests, and student demonstrations. Workers resisted wage stagnation and job losses, while students and civil society groups criticized the soaring cost of living.¹⁹ This climate of unrest weakened the legitimacy of the Babangida administration, which was increasingly viewed as serving the interests of international creditors over those of ordinary Nigerians.²⁰ The political instability generated by this dissatisfaction would persist well beyond the Babangida era.

In summary, while the Structural Adjustment Program was conceived as a bold attempt to restructure Nigeria's economy, its short- and medium-term consequences proved devastating for much of the population. Inflation, unemployment, poverty, and social unrest came to define the period, overshadowing the limited benefits of liberalization. Ultimately,

SAP entrenched Nigeria's dependence on global financial institutions while its uneven distributional outcomes eroded social cohesion. The program remains one of the most controversial policy experiments in Nigeria's post-independence history, remembered less for its intended objectives and more for the hardship it inflicted on millions of citizens

Inflationary Pressures and Living Standards

One of the most immediate and visible consequences of the Structural Adjustment Program (SAP) under General Ibrahim Babangida was the surge in inflation across Nigeria. The centerpiece of SAP, the devaluation of the naira was designed to make exports more competitive and reduce dependence on imports. However, in practice, it dramatically increased the cost of imported goods and services, thereby triggering widespread inflationary pressures.²¹ The removal of subsidies on petroleum products, fertilizer, and other essential commodities compounded the situation, making basic goods unaffordable for many ordinary Nigerians.

Inflation, which had averaged between 5 and 10 percent annually in the early 1980s, quickly spiraled out of control under SAP. By 1989, it had surged to nearly 40 percent, and by 1993—toward the end of Babangida's regime it peaked at an alarming 72.8 percent.²² This hyperinflation was partly the result of imported inflation, as the cost of foreign goods rose due to currency devaluation. In addition, deficit financing and excess liquidity in the economy exacerbated price instability, undermining the effectiveness of government's monetary controls.²³

The inflation crisis had severe implications for household welfare and living standards. As prices skyrocketed, the real wages of workers eroded rapidly, leaving families

unable to maintain previous levels of consumption. Civil servants and wage earners, in particular, were disproportionately affected as salary increases lagged far behind inflation rates²⁴. This decline in purchasing power not only reduced the quality of life but also deepened poverty levels, widened inequality, and generated social discontent across both urban and rural communities.

Thus, while SAP was intended to stimulate growth and stabilize Nigeria's economy, its inflationary consequences created widespread hardship. The erosion of living standards under Babangida's reforms illustrates how economic adjustment policies without adequate social safety nets can undermine social stability and weaken public confidence in government²⁵.

Impact on Trade and Industry

One of the central promises of the Structural Adjustment Program (SAP) under General Ibrahim Babangida's regime was to stimulate trade by making Nigerian exports more competitive. The devaluation of the naira was expected to reduce the relative cost of Nigerian goods abroad, thereby boosting non-oil exports. In theory, this policy aligned with the broader goal of diversifying the economy away from crude oil dependence. However, in practice, the results were mixed and largely disappointing. Although the devaluation made exports cheaper, Nigeria's persistent over-reliance on crude oil meant that non-oil exports contributed very little to foreign exchange earnings.²⁶

The manufacturing sector was one of the hardest hit by the reforms. Local industries relied heavily on imported raw materials, spare parts, and machinery, all of which became more expensive due to currency depreciation.²⁷ Rising input costs squeezed profit margins

and made it increasingly difficult for factories to operate competitively. Consequently, many industries experienced falling capacity utilization, leading to widespread factory closures and retrenchments.²⁸ The inability of manufacturing to thrive under the new liberalized framework revealed the structural weaknesses of Nigeria's industrial base, which had long depended on state protection and subsidies.

Instead of achieving economic diversification, SAP unintentionally reinforced Nigeria's dependence on oil revenues. While crude oil continued to dominate export earnings, local industries weakened under the combined weight of high import costs and reduced domestic demand.²⁹ Job losses and business failures worsened unemployment, fuelling further social discontent. By the end of Babangida's regime, it was evident that trade and industrial reforms had failed to create a robust productive sector, leaving the economy even more vulnerable to external shocks.

Social Consequences and Political Repercussions

The implementation of the Structural Adjustment Program (SAP) under General Ibrahim Babangida's administration not only reshaped Nigeria's economic trajectory but also had profound social and political repercussions. While the reforms were intended to stabilize the economy, their adverse effects on everyday life triggered widespread discontent that spilled into the political arena.

One of the most visible social consequences of SAP was the sharp rise in unemployment and poverty. The contraction of industries due to higher import costs and reduced access to foreign exchange led to widespread layoffs. Many Nigerians, especially in urban centres, faced worsening living conditions as wages failed to keep pace with soaring

inflation. The removal of subsidies on petroleum products, fertilizer, and essential goods further deepened the cost-of-living crisis, disproportionately affecting the poor.³⁰ The widening gap between the wealthy elite and the struggling masses heightened perceptions of inequality and fostered resentment toward the government.

This economic hardship quickly translated into organized resistance. Labor unions, most notably the Nigeria Labor Congress (NLC), staged frequent protests and strikes to challenge policies that eroded workers' welfare. Students also became a strong voice of opposition, organizing demonstrations across universities and polytechnics against what they saw as socially insensitive reforms. Civil society groups added their voices, calling for more people-centre policies and accountability from the government. The clashes between these groups and the state often led to violent confrontations, arrests, and, in some cases, fatalities.

Politically, the unrest weakened Babangida's legitimacy. While the regime initially projected itself as reformist, its inability to cushion Nigerians from the adverse consequences of SAP created deep distrust. The sense of betrayal was compounded by Babangida's prolonged and manipulative transition program, which many Nigerians saw as a strategy to perpetuate military rule. The combined weight of economic discontent and political dissatisfaction created an environment of instability that undermined the regime's authority.

Ultimately, the economic and political disillusionment of this period played a pivotal role in shaping Nigeria's democratic struggle. The hardship endured by the masses under SAP reinforced demands for a more inclusive political system, while the protests and strikes of the late 1980s and early 1990s set the stage for the eventual push toward civilian governance. In this way, Babangida's reforms, though intended to stabilize the economy,

inadvertently accelerated the erosion of military legitimacy and contributed to Nigeria's turbulent path toward democracy.

General Babangida's economic policies were ambitious in their intent but deeply flawed in their execution. The Structural Adjustment Program (SAP) was introduced as a corrective response to the structural weaknesses in Nigeria's economy, including balance of payment deficits, dwindling foreign reserves, and declining oil revenues. The government sought to liberalize the exchange rate, remove subsidies, and reduce the role of the state in economic management. These measures were aimed at stimulating efficiency, diversifying the economy, and curbing dependence on crude oil.³¹

Despite these intentions, the outcomes of the reforms proved detrimental to the Nigerian populace. Exchange rate liberalization and the naira devaluation destabilized the currency, fuelling inflationary pressures that eroded purchasing power.³² Subsidy removals, particularly on petroleum products and fertilizers, increased production and transportation costs, which in turn aggravated inflation and worsened living conditions for the poor and middle class.³³ What was envisioned as a pathway to economic stabilization instead deepened socioeconomic hardships.

Furthermore, SAP's impact on trade and industry revealed structural vulnerabilities. While exports theoretically became more competitive due to the devaluation of the naira, Nigeria's overwhelming reliance on crude oil meant that non-oil exports remained marginal. Manufacturing industries, heavily dependent on imported raw materials, machinery, and spare parts, were crippled by rising costs and scarcity of foreign exchange.³⁴ This led to

widespread factory closures, job losses, and the decline of the local industrial base, effectively entrenching Nigeria's dependence on oil.

The most enduring consequences of Babangida's reforms were social and political. The rising unemployment, inequality, and poverty rates sparked widespread resistance from labor unions, students, and civil society groups.³⁵ Protests, strikes, and civil unrest became recurring features of the late 1980s and early 1990s, undermining the legitimacy of Babangida's regime. This erosion of public trust and political stability contributed to the turbulence that characterized Nigeria's transition to civilian rule in the early 1990s.

In the final analysis, Babangida's economic legacy remains a cautionary tale. While SAP may have been necessary as a short-term response to Nigeria's economic decline, the absence of adequate social safety nets and poor policy implementation magnified its negative outcomes. The reforms succeeded in restructuring certain aspects of the Nigerian economy, but they came at the expense of social welfare, industrial growth, and political stability.³⁶ Babangida's legacy, therefore, is remembered less for economic recovery and more for the hardships endured by millions of Nigerians under his watch.

Social and Economic Impacts of Depreciation and SAP Policies

The depreciation of the naira under Babangida's Structural Adjustment Program (SAP) and its complementary reforms generated a wide range of social and economic outcomes that remain hotly debated among scholars and policymakers. While the program was intended to stabilize Nigeria's economy and create conditions for long-term growth, its short-term effects often imposed significant costs on households, businesses, and the broader society.

One of the most immediate impacts was short-term inflation and reduced real incomes. The devaluation of the naira, a cornerstone of SAP, sharply raised the domestic prices of imported goods, including essential staples and fuel. With wages failing to keep pace, households saw their purchasing power eroded. Inflation squeezed real incomes, leaving many families unable to afford basic necessities, thereby intensifying social discontent.³⁷

Poverty and unemployment were also exacerbated by the reforms. The combination of privatization, subsidy removal, and public-sector downsizing created widespread job losses in the short run. Many workers displaced from state enterprises struggled to find alternative employment, while vulnerable households bore the brunt of reduced social spending. Critics have argued that SAP contributed significantly to rising poverty levels in Nigeria during the late 1980s and early 1990s.³⁸

On the other hand, there were intended competitive effects on trade and export performance. Devaluation improved the relative price competitiveness of Nigerian trade, in theory creating opportunities for exporters. A few sectors benefited from this improved position, but structural bottlenecks hindered broader gains. Low industrial capacity utilization, high production costs, unreliable infrastructure, and limited investment constrained the possibility of an export-led recovery. Thus, while devaluation should have boosted exports, the structural weaknesses of the Nigerian economy meant that potential benefits were never fully realized.³⁹

In terms of external debt and macroeconomic stability, SAP was linked to debt renegotiation efforts and attempts to stabilize reserves. However, Nigeria continued to

grapple with persistent arrears and heavy external borrowing, leaving the overall macroeconomic outcomes mixed. The program provided some breathing space for fiscal stabilization, but the long-term debt burden and vulnerability to global conditions remained unresolved.⁴⁰

One notable aspect of SAP was its role in catalyzing institutional change. The creation of new markets, such as the Second-Tier Foreign Exchange Market (SFEM) and subsequent auction systems, reshaped the foreign-exchange regime. The expansion of private banking and the institutionalization of privatization frameworks also marked enduring transformations in Nigeria's economic architecture. These changes, though contested, had lasting effects well beyond Babangida's rule.⁴¹

However, the outcomes of SAP must be assessed in light of policy choices versus external constraints. Some economists argue that adjustment of some form was unavoidable, given Nigeria's unsustainable fiscal deficits and the chronic overvaluation of the naira. Yet the distributional consequences were profound: poorer households and vulnerable sectors bore the largest burden, while mitigation measures proved insufficient.⁴²

The timing and sequencing of reforms further complicated outcomes. The rapid pace of liberalization particularly the swift deregulation of exchange rates and removal of subsidies occurred in the absence of supply-side measures to cushion the transition. This worsened inflationary pressures and amplified short-run economic pain.⁴³

Capacity and governance weaknesses also undermined the program.

Widespread rent-seeking, weak institutional capacity, and corruption blunted efficiency gains from privatization and deregulation. Instead of fostering competitiveness and efficiency, reforms often created new opportunities for elite capture and mismanagement.⁴⁴

Finally, Nigeria's experience was shaped by external shocks. Global oil market volatility and limited access to concessional financing amplified the country's vulnerabilities, often undoing fragile gains made under SAP. In a resource-dependent economy like Nigeria, these external pressures interacted with domestic weaknesses to deepen the challenges of adjustment.⁴⁵

In sum, while SAP was intended to correct structural distortions and stabilize Nigeria's economy, its social and economic impacts were mixed at best. The reforms produced enduring institutional changes but also inflicted deep hardship on the population. The balance between necessity and cost remains a central theme in evaluating the Babangida era adjustment program.

Exchange Rate Systems under Babangida

One of the most significant aspects of Babangida's economic reforms was the restructuring of Nigeria's exchange rate regime. In September 1986, his government introduced the Second-Tier Foreign Exchange Market (SFEM), a bold attempt to allow market forces to determine the naira's value. Under SFEM, foreign exchange was allocated through auctions, with access granted to the highest bidders. This approach was designed to curb rent-seeking behavior, reduce overvaluation of the naira, and attract much-needed foreign capital. Initially, SFEM succeeded in improving foreign exchange availability, but its unintended consequences soon became evident. The naira depreciated rapidly from ₦1 =

US\$1.00 in 1985 to ₦4.00 = US\$1.00 in 1986, and further down to ₦7.39 = US\$1.00 by 1989.⁴⁶ While the mechanism was supposed to instill discipline, it created fertile ground for speculation and arbitrage, as politically connected actors exploited loopholes for personal gain.

To address these problems, the government experimented with a dual exchange rate system, in which an official rate co-existed alongside the SFEM rate. However, this dual structure proved difficult to sustain. In 1987, the regime attempted a merger of the two into a unified Foreign Exchange Market (FEM) in order to restore coherence and minimize distortions. Yet, the reforms struggled against deep structural weaknesses, and by the early 1990s, multiple exchange rate regimes re-emerged. This reversion not only exposed policy inconsistency but also undermined investor confidence, as constant shifts in policy complicated planning and encouraged speculative activity.⁴⁷

The effects of exchange-rate reforms on trade and investment were equally mixed. On the surface, naira devaluation made Nigerian exports cheaper and theoretically more competitive. However, given Nigeria's extremely narrow export base, which relied overwhelmingly on crude oil, the benefits of devaluation were minimal. Instead, the costs of imports rose dramatically, fuelling inflation and reducing consumer welfare. The industrial sector, heavily dependent on imported raw materials and machinery, bore the brunt of these pressures. As production costs climbed, many manufacturers experienced declining productivity and capacity utilization, further weakening Nigeria's industrial base.⁴⁸

Inflationary Trends under Babangida

The depreciation of the naira during the SAP years coincided with sharp inflationary pressures, which fundamentally altered Nigeria's economic landscape. The removal of subsidies on petroleum products, fertilizers, and essential goods significantly increased the cost of living. Inflation, which had averaged a manageable 5–10 percent annually before SAP, surged to 40 percent in 1989 and eventually peaked at an unprecedented 72.8 percent in 1993.⁴⁹ The surge in prices was driven by several interrelated factors.

First, imported inflation was a direct consequence of rising import costs following devaluation. Nigeria's dependence on foreign goods meant that households and industries alike faced higher prices for essentials. Second, excess liquidity fuelled by persistent government deficit financing further aggravated inflation. Public spending, often financed through borrowing and money supply expansion, injected additional pressure into the economy. Finally, currency speculation became rampant, as individuals and businesses increasingly held foreign currency as a store of value, further undermining the naira and intensifying inflationary spirals.

These inflationary dynamics eroded real wages and drastically reduced living standards for ordinary Nigerians. For workers, rising prices outpaced salary adjustments, wiping out savings and diminishing purchasing power. The widening gap between economic policy goals and lived realities contributed to widespread social unrest, as the hardships of SAP disproportionately fell on vulnerable households. Thus, while Babangida's reforms sought to stabilize the economy through liberalization, the combination of currency depreciation and soaring inflation deepened inequality and undermined social stability.

Currency Management Practices under Babangida's Regime

One of the central pillars of Babangida's economic reforms was currency management, and devaluation was its most prominent policy instrument. The government justified repeated devaluations as necessary measures to enhance Nigeria's international competitiveness and encourage exports. In theory, a weaker naira would make Nigerian goods cheaper abroad and stimulate export-driven growth. However, Nigeria's overwhelming dependence on crude oil exports and the weakness of its industrial base meant that devaluation did little to diversify the export sector. Instead, the policy primarily worsened the cost of imports and debt servicing, as both consumer goods and industrial inputs became more expensive.⁵⁰ The gap between theoretical objectives and practical realities revealed the structural limitations of devaluation as a growth strategy in the Nigerian context.

To address persistent shortages of foreign exchange, the Babangida administration institutionalized Bureaux de Change in 1989. These operators were meant to widen access to foreign exchange and reduce the influence of unregulated black markets. However, the move also formalized and legitimized parallel markets, where the naira consistently depreciated faster than in official channels.⁵¹ Rather than stabilizing exchange rates, the expansion of Bureau de Change activity reinforced speculative practices and arbitrage, contributing to further volatility in Nigeria's currency system.

Another important aspect of Babangida's currency management was debt rescheduling. Faced with mounting repayment obligations, his government entered into negotiations with external creditors to restructure Nigeria's debt. While rescheduling provided temporary relief, the weakening value of the naira made repayments increasingly

burdensome. By the end of Babangida's rule, Nigeria's external debt had ballooned from \$19 billion in 1985 to over \$30 billion by 1993, highlighting the limited success of these efforts.⁵²

The Depreciation of the Naira: Trajectory and Consequences

The trajectory and consequences of naira depreciation during Babangida's era were stark. From ₦1 = \$1.00 in 1980, the naira fell to ₦4 = \$1.00 in 1986, ₦10 = \$1.00 in 1990, and ₦17 = \$1.00 by 1993. This collapse represented one of the steepest depreciations of any African currency during the period.⁵³ The consequences were profound: declining real incomes and purchasing power, the collapse of local industries due to soaring input costs, and a surge in poverty and unemployment. Rising debt-servicing obligations strained government finances, while the social costs manifested in widespread unrest student protests, labor strikes, and riots. Proponents of SAP argued that such sacrifices were necessary to "reset" the Nigerian economy, but critics contended that the policies deepened structural dependency, widened inequality, and undermined social welfare.

The legacy of Babangida's currency reforms was ambiguous. On one hand, the Structural Adjustment Program and associated measures embedded market-oriented mechanisms into Nigeria's policy framework, laying the groundwork for future privatization and financial liberalization.⁵⁴ They also exposed structural weaknesses that subsequent governments were forced to confront. On the other hand, the era entrenched widespread social grievances and fostered a lasting association between liberalization, hardship, and currency collapse⁵⁵. The long-run competitiveness of non-oil exports remained severely limited, and the country's dependence on oil revenues persisted as a chronic vulnerability.⁵⁶

In conclusion, General Ibrahim Babangida's economic policies most notably the 1986 Structural Adjustment Program were bold attempts to rescue Nigeria from macroeconomic collapse through liberalization, devaluation, and privatization. These policies were driven by clear macroeconomic rationales: correcting an overvalued exchange rate, restoring external competitiveness, and addressing fiscal and balance-of-payments imbalances. Yet, the shift from administrative controls to market-determined systems unmasked deep institutional and structural weaknesses. Coupled with external shocks and weak implementation, these policies led to sustained naira depreciation, escalating debt, and significant social hardship.

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CHAPTER FIVE

CONCLUSION

The Nigerian economy in the 1980s was characterized by external debt burdens, declining oil revenues, inflation, and currency instability.¹ As the economy weakened, successive governments introduced various policy measures to arrest the crisis.² However, it was under General Ibrahim Babangida's regime (1985–1993) that the most far-reaching reforms were introduced through the Structural Adjustment Program (SAP).³ These reforms, while designed to liberalize and restructure the economy, had profound consequences for the value of the Naira.⁴ Babangida inherited an economy already under strain from the global oil glut of the early 1980s, dwindling foreign reserves, and mounting foreign debt.⁵ To tackle these challenges, his administration, in consultation with the International Monetary Fund (IMF) and the World Bank, introduced SAP in July 1986.⁶ The program emphasized exchange rate deregulation, trade liberalization, subsidy removal, privatization, and promotion of non-oil exports.⁷

One of the most significant elements of SAP was the deregulation of the exchange rate system through the Second-Tier Foreign Exchange Market (SFEM), introduced in September 1986.⁸ This policy devalued the Naira to reflect its market value against foreign currencies.⁹ Initially, the objective was to unify the exchange rate system and promote efficiency in foreign exchange allocation.¹⁰ However, the rapid depreciation of the Naira became one of the most visible legacies of Babangida's reforms.¹¹

At independence in 1960, the Naira (introduced later in 1973) was relatively strong compared to the U.S. dollar and British pound.¹² By the early 1980s, despite economic turbulence, the currency still maintained considerable value.¹³ But by the late 1980s, under SAP, the Naira's exchange rate had collapsed dramatically¹⁴. For instance, the Naira, which exchanged at ₦1 to \$1.50 in 1980, fell to around ₦10 to \$1 by 1987 and continued to decline throughout the Babangida era¹⁵. The rationale for devaluation was that a cheaper Naira would encourage exports, reduce import dependency, and improve Nigeria's balance of payments¹⁶. In practice, however, Nigeria's weak industrial base and dependence on imported goods meant that devaluation only fuelled inflation, worsened living conditions, and increased production costs¹⁷. The collapse of local industries, particularly manufacturing, was accelerated by trade liberalization, which exposed domestic firms to foreign competition¹⁸.

Babangida's policies also emphasized subsidy removal, particularly on petroleum products and essential commodities¹⁹. While the government argued this would reduce fiscal burdens and redirect resources to development projects, it caused widespread hardship for ordinary Nigerians²⁰. The removal of subsidies, combined with the devaluation of the Naira, led to sharp increases in the prices of food, transportation, and housing.²¹ Privatization of state-owned enterprises was another major component of Babangida's reforms.²² The aim was to reduce government involvement in business and encourage private sector efficiency.²³ While some enterprises were sold off, the process was criticized for lack of transparency and favoritism towards political elites²⁴. Instead of fostering competition and growth, privatization often transferred state assets into the hands of a few powerful individuals.

The cumulative effect of these policies was a significant decline in the standard of living²⁵. The middle class, once relatively stable in Nigeria, was severely eroded. Unemployment rose, poverty deepened, and the social contract between the state and citizens weakened²⁶. The Naira's persistent depreciation undermined public confidence in the government's economic management and fuelled political discontent.

Despite these challenges, Babangida's government argued that SAP was necessary to lay the foundation for long-term growth. Some positive effects were recorded, such as increased agricultural production due to higher prices for farmers and modest improvements in non-oil exports. However, these gains were overshadowed by the overwhelming social costs and the Naira's instability²⁷.

General Babangida's economic policies were ambitious in intent but flawed in execution. The Structural Adjustment Program restructured the Nigerian economy but at great social cost. Exchange rate liberalization and subsidy removals fuelled inflation, currency instability, and poverty²⁸. While SAP may have been a necessary response to economic decline, its negative impact on industry, trade, and living standards overshadowed its intended benefits. Babangida's legacy, therefore, remains a cautionary tale of reform without adequate safeguards for the nation's currency and its people.

The long-term impact of Babangida's reforms extended beyond the economic sphere into Nigeria's political and social fabric²⁹. The widening inequality created by SAP intensified public resentment, especially among workers and students, who bore the brunt of subsidy removals and wage stagnation. Organized labor, through the Nigeria Labor Congress (NLC), staged repeated strikes to protest fuel price hikes and currency depreciation. The

regime often responded with repression, deepening the sense of alienation between state and society.

Foreign debt remained a persistent challenge throughout Babangida's administration³⁰. While the government sought debt rescheduling arrangements with the Paris and London Clubs, the conditions often required further austerity measures. By the early 1990s, debt servicing consumed a disproportionate share of national revenue, crowding out investment in infrastructure, education, and health. Consequently, public services deteriorated sharply, aggravating poverty and underdevelopment.

Monetary policies under Babangida were also inconsistent³¹. Efforts to stabilize the Naira through tight credit controls frequently clashed with expansionary spending driven by political motives. The resulting policy reversals undermined investor confidence and worsened exchange rate volatility. Inflation, which averaged 10–20 percent in the early 1980s, rose to over 40 percent by the early 1990s, eroding purchasing power.

Agricultural policy experienced mixed outcomes³². While SAP promoted export crops such as cocoa and palm oil, food security was undermined by rising input costs due to subsidy withdrawals. Farmers faced difficulties accessing fertilizers and machinery, leading to reduced yields in some regions. Urban dwellers were particularly affected, as food prices soared in line with currency devaluation.

Education and health sectors were not spared from the economic crisis³³. Budget cuts forced universities and hospitals into prolonged strikes and deteriorating standards. Brain drain accelerated as Nigerian professionals sought better opportunities abroad. This exodus

further weakened the country's human capital base, undermining the very growth SAP sought to stimulate.

Politically, Babangida sought to justify his economic policies by linking them to a broader transition to democracy.³⁴ However widespread dissatisfaction with SAP undermined his legitimacy. The annulment of the June 12, 1993 presidential election widely regarded as free and fair was partly fuelled by fears that democratic forces would reverse SAP's unpopular measures. The economic crisis, therefore, played a crucial role in deepening Nigeria's political instability during this period.

Internationally, Babangida's reforms were praised by the IMF and World Bank as steps towards modernization.³⁵ Yet, critics argued that SAP reflected external imposition rather than domestic priorities. The program's emphasis on liberalization and privatization aligned with global neoliberal trends but failed to consider Nigeria's structural weaknesses. As a result, Nigeria became increasingly dependent on foreign capital and vulnerable to global economic shocks³⁶.

The depreciation of the Naira during Babangida's tenure remains one of the most striking indicators of the SAP era. By 1993, the Naira had plummeted to nearly ₦20 to \$1 in the official market, while parallel market rates were much higher. This loss of value eroded national pride and reshaped social behavior, as imported goods became luxuries and smuggling thrived. The currency crisis also reinforced corruption, as access to foreign exchange became a lucrative avenue for rent-seeking³⁷. Civil society groups, religious leaders, and academics increasingly condemned the regime's economic policies as exploitative. Protest movements such as the Campaign for Democracy linked economic

hardships to authoritarian rule, creating a broad coalition for change. In many respects, the unpopularity of Babangida's economic agenda hastened the eventual collapse of his regime³⁸.

In retrospect, scholars remain divided on Babangida's legacy. Some argue that SAP was unavoidable given the scale of Nigeria's debt and external imbalances. Others contend that alternative policies such as gradual reforms and stronger protection for local industries could have mitigated the social costs³⁹. What is clear, however, is that the depreciation of the Naira under Babangida symbolized deeper structural weaknesses in Nigeria's economic system. By the mid-1990s, the Nigerian economy was characterized by widespread poverty, a weakened manufacturing base, and deep reliance on oil revenues. The lessons of Babangida's era continue to resonate in debates about economic reform and currency management in Nigeria today⁴⁰. Policymakers often cite the SAP experience as a cautionary tale about the dangers of externally driven reforms that ignore domestic realities.

Ultimately, the depreciation of the Naira under General Babangida was not simply an economic event but a transformative national experience⁴¹. It reshaped the structure of Nigerian society, deepened inequality, and altered the trajectory of development. While Babangida's government promised that sacrifice today would lead to prosperity tomorrow, for many Nigerians, the promised prosperity never arrived.

The regime's failure lay not only in flawed economic design but also in the absence of credible safeguards for vulnerable populations⁴². Currency depreciation, inflation, and subsidy removals imposed costs that ordinary citizens could not bear, leaving scars that outlasted Babangida's rule and a history that underscores the perils of reform without inclusion, and the dangers of policies that prioritize currency adjustment over human welfare.

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